

Message Text

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73

ACTION ARA-20

INFO OCT-01 ISO-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SPC-03

CIEP-02 LAB-06 SIL-01 OMB-01 TAR-02 STR-08 CEA-02

PA-03 PRS-01 USIA-15 SS-15 NSC-10 DRC-01 /154 W

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R 112028Z OCT 73

FM AMEMBASSY MONTEVIDEO

TO SECSTATE WASHDC 5388

UNCLAS MONTEVIDEO 3081

E.O. 11652: N/A

TAGS: ECON, UY

SUBJ: GOU HIGH-LEVEL MEETING II REAFFIRMS ANTI-INFLATIONARY STRATEGY

REF: MVD 3065 AND MVD 3058

1. THE SECOND GOU HIGH-LEVEL MEETING CONTINUES AT HOTEL NIRVANA, HAVING BEEN EXTENDED TO OCTOBER 11. SINCE THE PRONOUNCEMENTS REPORTED IN REFTELS, THE MAJOR POLICY STATEMENT ISSUED HAS REAFFIRMED GOU ANTI-INFLATIONARY STRATEGY.

2. POLICY STATEMENT REVIEWS PROGRESS MADE IN PAST EIGHTEEN MONTHS IN CORRECTING PRICE DISTORTIONS, IMPROVING INTERNATIONAL RESERVES, AND REDUCING CREDIT EXPANSION. STATEMENT REAFFIRMS THIS APPROACH AND CALLS FOR CONTINUED PROGRESS IN DECONTROLLING PRICES, GRADUAL EASING OF RESTRICTIONS ON IMPORTS, MEASURES AIMED AT REDUCING PRODUCTION COSTS (ESPECIALLY FOR STATE ENTERPRISES) AND A GRADUAL RISE IN THE LEVEL OF REAL WAGES. IN ADDITION, EMPLOYMENT WILL BE STIMULATED THROUGH AN INCREASED LEVEL OF GOVERNMENT INVESTMENT.

3. COMMENT: THE ANTI-INFLATION STATEMENT SHOWS AN UNDERSTANDING OF THE ROOTS OF URUGUAY'S LONG ECONOMIC STAGNATION, AND IT CONFIRMS THE GOVERNMENT'S INTENT TO FIGHT INFLATION BY
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GETTING AT ITS ROOT CAUSES RATHER THAN THROUGH SELF-DEFEATING

GOVERNMENT CONTROLS, WHILE SIMULTANEOUSLY REDUCING THE SOCIAL
COSTS INHERENT IN INFLATION. THIS APPROACH WILL NOT YIELD
IMMEDIATE SPECTACULAR RESULTS, BUT IT SHOULD, AS IT DID IN
BRAZIL, GRADUALLY ELIMINATE INFLATION-CAUSED IMPEDIMENTS TO
ECONOMIC GROWTH.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 11 OCT 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973MONTEV03081
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: MONTEVIDEO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19731037/aaaabbax.tel
Line Count: 67
Locator: TEXT ON-LINE
Office: ACTION ARA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: MVD 3065 AND MVD 3058
Review Action: RELEASED, APPROVED
Review Authority: kelleyw0
Review Comment: n/a
Review Content Flags:
Review Date: 11 DEC 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <11-Dec-2001 by bryansd0>; APPROVED <26 FEB 2002 by kelleyw0>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GOU HIGH-LEVEL MEETING II REAFFIRMS ANTI-INFLATIONARY STRATEGY
TAGS: ECON, UY
To: SECSTATE WASHDC
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005